



NZ Windfarms
POWERED BY NATURE

NZ WINDFARMS LIMITED
INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2009

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NZ WINDFARMS LIMITED

CHAIRMAN'S REVIEW

For the Six Month Period Ended 31 December 2009

The most significant event for the Company during this reporting period occurred during November 2009 when the final Stage 3 turbines at the Te Rere Hau wind farm were commissioned, making a total of 65 commissioned turbines. However this achievement has been somewhat overshadowed by the dispute with our turbine supplier, Windflow Technology Limited and the impact that it has had on the timing of the capital raising.

FINANCIAL PERFORMANCE

Low electricity prices affected financial performance for the six months to 31 December 2009. The Loss for the period before asset impairments, depreciation, amortisation and tax, was \$1,044,000 (31 December 2008 – loss of \$1,727,000).

Electricity sales for the six months to the end of December 2009 were 40,842 MWh at an average price of \$38.92/MWh. While revenue from electricity sales has increased as turbines are commissioned, the increase in revenue has been offset by lower interest income as the cash funds on deposit are utilised to meet the Te Rere Hau construction expenditure.

The net loss attributable to Equity Holders of the Parent for the six months was \$6,535,000 compared to a net profit of \$2,594,000 for the six months ended 31 December 2008. The six months to 31 December 2008 result included \$3,162,000 Discount on the acquisition of NPBB's 50% share in the Te Rere Hau Wind Farm Joint Venture; the net deficit before the Discount on acquisition was \$568,000.

Net loss included \$1,590,000 from electricity sales (31 December 2008 - \$113,000), however this was offset by lower interest income of \$138,000 (31 December 2008 - \$2,251,000) as available cash reserves were used to continue construction and commissioning the Te Rere Hau wind farm.

Net assets at 31 December 2009 were \$74,557,000, compared to \$81,092,000 at 30 June 2009 and \$82,724,000 at 31 December 2008.

During the period the Company carried out a review of the carrying values of assets in accordance with NZ IAS 36 - Impairment of Assets, and has determined to make an impairment charge of \$6,300,000. The valuation of the Te Rere Hau wind farm assets is very sensitive to assumptions about discount rate and electricity price. In ascertaining the "fair value less costs to sell" in accordance with NZ IAS 36, the Company has applied a post-tax (nominal) discount rate of 10% (equivalent to a 11.8% pre-tax (nominal) discount rate), consistent with the discount rate factored into the Ministry of Economic Development's long run marginal cost modelling on which the adopted future price path is based. Accordingly this rate reflects the Ministry's estimate of the hurdle rate applied by a typical investor evaluating an electricity generation project.

The wholesale electricity price path used in the discounted cash flow model to determine fair value is based on Energy Hedge forward price contracts through to 2012. Post 2012 the price path is based on the Ministry of Economic Development ("MED") Energy Outlook reference scenario which was published in September 2009.

The Company has an agreement with the Crown to receive emission units from the Te Rere Hau project. The Company commenced earning emission reduction units on 1 January 2008 and earned 30,390 units during the calendar year ended 31 December 2009 (31 December 2008: 1,296 units). The emission reduction units will be recognised as an asset at fair value at the time the Crown issues the units and when fair value can be determined by reference to an active market. The 2008 and 2009 units have not yet been issued by the Crown. There is no active market for carbon credits within New Zealand at this time. The current international market price of carbon credits typically ranges from Euro8 to Euro12 per tonne.

TE RERE HAU PROJECT

Since 30 June 2009 the focus has been on commissioning turbines at the Te Rere Hau wind farm and resolving the dispute with our turbine supplier, Windflow Technology Limited. At 31 December 2009 all 28 Stage 2 turbines and 32 Stage 3 turbines have been fully commissioned, making a total of 65 turbines operational and producing electricity into the National Grid.

NZ WINDFARMS LIMITED

CHAIRMAN'S REVIEW (Continued)

Windflow Technology Dispute

Your Board had always taken comfort from the fact that Windflow Technology Limited (WTL) was committed to seeking International Electrotechnical Commission (IEC) Class 1A Type Certification for the WF500 turbine. Conformity with a recognised design standard assured us that the turbines would be suitable for use at Te Rere Hau and that we could be confident in seeking public investment in this project. As reported in August 2009, we learned that none of the turbines would be at the standard required for IEC Certification. At that time Windflow Technology advised that to incorporate all the design changes in all turbines would require a fundamental refit of those turbines and the potential cost to do this could be as high as \$24 million. This meant it was essential we understood the impacts and risks of not having these design changes.

In December 2009, we were provided with a copy of a report by a Consultant engaged by Windflow Technology into the significance of the design modifications. Since then NZ Windfarms has been in dialogue with Windflow Technology over the implications of the findings from the Consultant's report.

Resolving this matter has not been easy - it has proven difficult to sort out and been time consuming. However the Company has made good progress on resolving this issue with Windflow Technology and continues to work with them to resolve outstanding issues.

Resource Consent

On 29 May 2009 NZ Windfarms lodged a resource consent application with Tararua District Council to install 56 turbines in an area adjoining the current consented Te Rere Hau wind farm. This Extension area has a better wind resource than the lower slopes of the existing farm and hence NZ Windfarms would like to preferentially locate most or all of the Batch 4 turbines in this area.

On 4 February 2010 the Company received the decision of the Joint Hearing Commissioners in respect to the Resource Consent application for the Te Rere Hau wind farm Eastern Extension. The Hearing Commissioners have granted consents for the 56 additional turbines applied for. At the time of authorising these financial statements one appeal had been lodged with the Environment Court in respect to this decision. The Company believes the appellant's concerns can be addressed, and has initiated discussion with the intention of reaching an agreement to have the appeal withdrawn.

Operational performance and outlook

Some problems have been experienced with some of the turbines delivered in the project. These problems have affected turbine availability which for the 2009 calendar year was 93.3% percent. Problems have been experienced with cast gears on six turbines where an incorrect heat treatment process has made these gears prone to cracking. All affected gears have been replaced but with some adverse impact on availability. Five turbines have also been affected by operating with incorrect oil filters fitted, which have potentially allowed manufacturing debris to enter the gearboxes. These turbines are all being inspected and parts replaced under warranty if damage is found.

A more recent problem was experienced with overheating of generator assemblies within the turbines installed at Te Rere Hau. Windflow Technology has completed, under warranty, a project to retrofit cooling fans to the generator assemblies and replace generators where necessary to resolve this issue which manifested itself when the turbines were operating for sustained periods at high output. The Company continues to closely monitor the effectiveness of the solution we have been provided by the manufacturer.

Availability levels should improve as these problems are resolved.

CAPITAL RAISING AND SHORT TERM FUNDING

As reported at the Company's Annual Shareholders' meeting held on 18 December 2009, following the completion of the acquisition of NPPB Pty Limited 50 per cent share in the Te Rere Hau wind farm, your Board recognised that the Company needed to raise additional funds to complete the Te Rere Hau project. We assessed the options for doing this and were well advanced with plans to go to shareholders for additional capital when Windflow Technology advised us that none of

NZ WINDFARMS LIMITED

CHAIRMAN'S REVIEW (Continued)

the turbines already supplied to the project nor any of the remaining turbines to be supplied would comply with the design submitted by Windflow Technology for IEC Class 1A Certification.

This information meant that your Board had no option but to delay the capital raising and get a third party assessment so that we understood the impact and risks of not having these design changes incorporated into our turbines, and whether any mitigating actions needed to be taken either with the turbines already supplied or with those that were still to be supplied. This is a project that is expected to have at least a 20 year life and the life and operating cost of the turbines is fundamental to the economics of the project.

In your Board's view, the Consultant's report has confirmed that its decision to disclose this matter to the market and to delay the capital raising until it obtained a clearer understanding of the implications of not receiving IEC Certified turbines from Windflow Technology was appropriate.

As a result, the Company, after assessing alternatives, approached its cornerstone shareholder, Vector Limited, and negotiated a short term bridging loan facility that will provide the funds required to continue the Te Rere Hau project and provide working capital until the capital raising is completed. The two Vector directors on the NZ Windfarms Limited Board immediately declared their conflict of interest in the transaction and had no involvement in negotiations with Vector Limited or the NZ Windfarms Limited Independent Directors' decision to enter into the loan facility.

Due to the tight deadlines in respect of the need for short term funding the Company applied for, and was granted a waiver of NZX Listing Rule 9.2.1 seeking approval from shareholders to the entry into of the loan by way of ordinary resolution, as the Loan constitutes a "material transaction" with a "related party".

The Independent Directors obtained independent advice to the effect that the terms of the Loan Facility Agreement are commercially reasonable in the circumstances.

The last six months have been challenging but your Board remains comfortable that the decision to delay the capital raising until the implications of not receiving IEC certified turbines were understood, and the decision on the resource consent application known, are in the best interest of the Company and shareholders. Further information of the nature of the capital raising will be released to NZX and shareholders shortly.

Despite all these issues we need to recognise that we do now have a 65 turbine, 32 megawatt wind farm operating. While not yet at warranted availability we expect this to be achieved as the causes of downtime are identified and rectified.

Our priority remains the completion of the Te Rere Hau project. The coming year will focus on resolving the outstanding issues with Windflow Technology, completing construction of Stage 4 of Te Rere Hau, and maximising the value of the completed wind farm.

GOING CONCERN

The condensed consolidated interim financial statements have been prepared using the going concern assumption. The continued operations of the Group are dependent on the ability to fund future activities from operational cash flows and funding.

The Company and its subsidiaries have prepared business plans and budgets which indicate that cash generated as a result of operations is insufficient for the Company to continue operating for a period of at least 12 months from the date these financial statements were approved by the Board of Directors.

The Company is proposing to raise funding to complete the development of the Te Rere Hau wind farm and to repay the short term loan from its cornerstone shareholder, Vector Limited, by way of a shareholder rights issue. On completion of the wind farm the Company's cash flow projections demonstrate sufficient net cash surpluses to fund the ongoing operations of the wind farm.

The Board is close to finalising the timing and method of raising funding and further information of the nature of the rights issue will be released to NZX and shareholders shortly.

NZ WINDFARMS LIMITED
CHAIRMAN'S REVIEW (Continued)

For the reasons set out above, the Board believes the going concern assumption is a valid basis on which to prepare the financial statements. The Board reached this conclusion having regard to the circumstances which they consider likely to affect the Company during the period of one year from the date these financial statements are approved, and to circumstances which they believe will occur after that date which could affect the validity of the going concern assumption. While the Board is confident in the Company's ability to continue as a going concern, there is uncertainty with respect to achieving the operational cash flows predicted and the raising of sufficient additional funding prior to utilisation of available cash resources and to complete the Te Rere Hau wind farm project. Accordingly, there is uncertainty as to whether the Company can continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable. If the Company was unable to continue in operational existence and pay debts as and when they become due and payable, adjustments may have to be made to reflect the situation that assets may need to be realised and liabilities extinguished other than in the normal course of business, and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position.

The condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

The external auditor has referred to the fundamental uncertainty in its audit report.



Derek Walker
Chairman

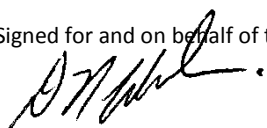
NZ WINDFARMS LIMITED
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended	Notes	31/12/2009 \$000 (audited)	31/12/2008 \$000 (unaudited)
Income			
Electricity sales		1,590	113
Other income		-	290
Total income (excluding interest income)		1,590	403
Te Rere Hau operational expenses		432	384
Lease and rental expenses		479	67
Directors' fees		116	124
Employment expenses		451	920
Insurance costs		222	102
Legal and consulting		546	311
Loss on sale of property held for resale		10	-
Other operating expenses		378	222
Operating expenses (excluding asset impairment, depreciation and amortisation)		2,634	2,130
(Loss) before asset impairment, depreciation, amortisation, interest, discount on acquisition, tax and non-controlling interest		(1,044)	(1,727)
Impairment of properties held for resale		29	245
Impairment of property, plant and equipment and capital work in progress	2	5,782	-
Impairment of intangible assets	2	518	713
Depreciation	1	1,480	180
Amortisation		315	3
(Loss) before interest, discount on acquisition, tax and non-controlling interest		(9,168)	(2,868)
Interest income		138	2,251
Interest expense		(274)	(46)
(Loss) for period before discount on acquisition, tax and non-controlling interest		(9,304)	(663)
Discount on acquisition of investment		-	3,162
Net (loss)/profit before tax and non-controlling interest		(9,304)	2,499
Income tax (income)		(2,769)	(84)
Net (loss)/profit before on-controlling interest		(6,535)	2,583
Net loss attributable to non-controlling interest		-	(11)
Net (loss)/profit attributable to equity holders of the parent for the period		(6,535)	2,594
Total comprehensive income		(6,535)	2,594
Total comprehensive income attributable to:			
Equity holders of the Parent		(6,535)	2,583
Non-controlling interests		-	(11)
		(6,535)	2,594
Earnings per share			
Basic and Diluted - cents		(8.32)	3.30

NZ WINDFARMS LIMITED
CONSOLIDATED INTERIM BALANCE SHEET

30/06/2009 NZ\$000 (audited)	As at	Notes	31/12/2009 \$000 (audited)	31/12/2008 \$000 (unaudited)
	Assets			
	Current assets			
10,401	Cash and cash equivalents		246	40,640
4,712	Restricted short term deposits	7	4,712	4,712
42	Income tax receivable		-	29
800	Assets held for resale		321	800
673	Trade and other receivables		1,100	901
16,628	Total current assets		6,379	47,082
	Non-current assets			
52,176	Property, plant and equipment	1,2	59,492	15,130
15,504	Turbine deposits		9,728	25,719
3,854	Capital work in progress	2,3	5,203	17,318
5,943	Intangible assets	2	5,797	5,886
308	Deferred tax		3,086	-
77,785	Total non-current assets		83,306	64,053
94,413	Total assets		89,685	111,135
	Liabilities			
	Current liabilities			
5,673	Trade and other payables		8,630	2,103
2,100	Other payable – acquisition of Joint Venture		-	20,675
104	Current portion of finance lease	9	110	100
-	Related party loan	11	1,000	-
7,877	Total current liabilities		9,740	22,878
	Non-current liabilities			
5,444	Finance lease	9	5,388	5,490
-	Deferred tax		-	43
5,444	Total non-current liabilities		5,388	5,533
13,321	Total liabilities		15,128	28,411
81,092	Net assets		74,557	82,724
	Equity			
77,878	Share capital		77,878	77,878
3,214	Retained (deficit) earnings		(3,321)	4,847
81,092	Equity attributable to equity holders of the company		74,557	82,725
-	Non-controlling interest		-	(1)
81,092	Total equity	4	74,557	82,724
95.3	Net tangible assets per share (cents)		83.6	97.8

Signed for and on behalf of the Board on 26 February 2010



Derek Walker
Chairman



Juliet McKee
Director

NZ WINDFARMS LIMITED
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Year ended 30/6/2009		Notes	6 months ended 31/12/2009	6 months ended 31/12/2008
\$000 (audited)			\$000 (audited)	\$000 (unaudited)
80,141	Equity at beginning of period		81,092	80,141
961	Comprehensive income attributable to equity holders of the parent		(6,535)	2,594
81,102			74,557	82,735
(10)	Comprehensive income attributable to non-controlling interests		-	(11)
81,092	Equity at end of period		74,557	82,724
	Represented by:			
77,878	Share capital	4	77,878	77,878
-	Non-controlling interests		-	(1)
3,214	Retained (deficit) earnings	4	(3,321)	4,847
81,092	Total equity		74,557	82,724

NZ WINDFARMS LIMITED
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months to	Notes	31/12/2009 \$000 (audited)	31/12/2008 \$000 (unaudited)
Operating activities			
Cash was received from:			
Trading revenue		1,318	455
Interest received		185	3,768
Income tax refund		32	-
		1,535	4,223
Cash was applied to:			
Interest paid		339	46
Payments to suppliers and employees		2,416	1,834
Income tax paid		-	23
		2,755	1,903
Net cash (outflow)/inflow from operating activities	5	(1,220)	2,320
Investing activities			
Cash was provided from:			
Sale of assets held for resale		440	-
		440	-
Cash was applied to:			
Purchase of Intangible assets		836	210
Purchase of Investments		2,100	-
Purchase of property, plant and equipment, turbine deposits and capital work in progress		7,388	19,912
		10,324	20,122
Net cash (outflow) from investing activities		(9,884)	(20,122)
Financing activities			
Cash was provided from:			
Related party loan	11	1,000	-
		1,000	-
Cash was applied to:			
Finance lease payments		51	10
		51	10
Net cash inflow/(outflow) from financing activities		949	(10)
Net (decrease) in cash and cash equivalents		(10,155)	(17,812)
Cash and cash equivalents, beginning of period		10,401	58,452
Cash and cash equivalents, end of period		246	40,640
Cash and cash equivalents			
Term deposits		-	38,000
Bank accounts and deposits at call		246	2,640
		246	40,640

NZ WINDFARMS LIMITED

STATEMENT OF ACCOUNTING POLICIES

REPORTING AND STATUTORY BASE

NZ Windfarms Limited is a profit oriented company in the business of development and operation of wind power generation assets for the purpose of generating and selling electricity. The Company operates solely within New Zealand.

NZ Windfarms Limited (the Company) is a company registered under the Companies Act 1993 of New Zealand and listed on the New Zealand Stock Exchange (NZX).

Consolidated interim financial statements (Group) are presented. The condensed consolidated interim financial statements of NZ Windfarms Limited as at 31 December 2009 comprise the Company, its 100% owned subsidiary NZWL–TRH Limited and the Company's 50% owned non-trading subsidiary, WindPower Maungatua Limited.

BASIS OF PREPARATION

The Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). These financial statements of the Group have been prepared in accordance with the Securities Act 1978 and Securities Regulations 2009. The consolidated interim financial statements comply with New Zealand equivalent to International Accounting Standard 34 (NZ IAS 34) *Interim Financial Reporting* and International Accounting Standard 34 (IAS 34) *Interim Financial Reporting*.

The financial statements are expressed in New Zealand dollars which is the Company's functional currency.

MEASUREMENT BASE

The measurement base adopted in the preparation of these financial statements is historical cost modified by measuring assets held for resale at fair value less costs to sell.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the condensed consolidated interim financial statements are unchanged from the audited 30 June 2009 financial statements.

The condensed consolidated interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these condensed consolidated interim financial statements are to be read in conjunction with the 30 June 2009 financial statements.

NZ WINDFARMS LIMITED
 NOTES TO THE GROUP FINANCIAL STATEMENTS

1. PROPERTY, PLANT AND EQUIPMENT

Year ended 30/06/2009 \$000 (audited)		6 months ended 31/12/2009 \$000 (audited)	6 months ended 31/12/2008 \$000 (unaudited)
4,132	Opening carrying amount	52,176	4,132
19,272	Additions	7,667	3,345
12,366	Transfer from capital work in progress	5,776	552
10,452	Transfer from turbine deposits	782	236
7,155	Purchase of remaining interest in Te Rere Hau wind farm	-	7,184
-	Impairment	(5,317)	-
(157)	Disposals	(112)	(139)
53,220		60,972	15,310
(1,044)	Depreciation	(1,480)	(180)
52,176	Closing carrying amount	59,492	15,130

2. ASSET IMPAIRMENT

During the period the Company carried out a review of the carrying values of assets in accordance with NZ IAS 36 - Impairment of Assets, and has determined to make an impairment charge of \$6,300,000. The valuation of the Te Rere Hau wind farm assets is very sensitive to assumptions about discount rate and electricity price. In ascertaining the "fair value less costs to sell" in accordance with NZ IAS 36, the Company has applied a post-tax (nominal) discount rate of 10% (equivalent to a 11.8% pre-tax (nominal) discount rate), consistent with the discount rate factored into the Ministry of Economic Development's long run marginal cost modelling on which the adopted future price path is based. Accordingly this rate reflects the Ministry's estimate of the hurdle rate applied by a typical investor evaluating an electricity generation project. An increase in the discount rate of 0.1% would cause a further \$920,000 in impairment to be recognised, for a corresponding decrease in the discount rate there would be an equal but opposite impact on the impairment to be recognised.

The wholesale electricity price path used in the discounted cash flow model to determine fair value is based on Energy Hedge forward price contracts through to 2012. Post 2012 the price path is based on the Ministry of Economic Development ("MED") Energy Outlook reference scenario which was published in September 2009.

The impairment charge has been included in Consolidated Interim Statement of Comprehensive Income as follows:

- Impairment of Property, plant and equipment - \$5,317,000
- Impairment of Capital work in progress - \$465,000
- Impairment of Intangible assets - \$518,000

3. CAPITAL WORK IN PROGRESS

Year ended 30/06/2009 \$000 (audited)		6 months ended 31/12/2009 \$000 (audited)	6 months ended 31/12/2008 \$000 (unaudited)
4,283	Opening balance	3,854	4,283
3,686	Additions	7,590	5,336
8,251	Purchase of remaining interest in Te Rere Hau wind farm	-	8,251
(12,366)	Transfer to property, plant and equipment	(5,776)	(552)
-	Impairment	(465)	-
-	Disposals	-	-
3,854	Closing balance	5,203	17,318

NZ WINDFARMS LIMITED
 NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

4. EQUITY

Year ended 30/06/2009 (audited) \$000		6 months ended 31/12/2009 (audited) \$000	6 months ended 31/12/2008 (unaudited) \$000
	Net proceeds of shares issued and fully paid		
77,878	Opening balance	77,878	77,878
77,878	Net proceeds of shares issued and fully paid	77,878	77,878
	Retained (deficit) earnings		
2,253	Opening balance	3,214	2,253
961	Net profit/(loss) attributable to equity holders of the parent	(6,535)	2,594
3,214	Closing retained (deficit) earnings	(3,321)	4,847
-	Non-controlling interest	-	(1)
81,092	Total equity	74,557	82,724

5. RECONCILIATION OF PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT WITH OPERATING CASH FLOWS

6 months to	31/12/2009 \$000 (audited)	31/12/2008 \$000 (unaudited)
Net (Loss)/Profit attributable to equity holders of the parent	(6,535)	2,594
Non cash items		
Depreciation	1,480	180
Discount on purchase of investment	-	(3,162)
Amortisation of intangible assets	315	3
Impairment of intangible assets	518	713
Impairment of property, plant and equipment and capital work in progress	5,782	-
Impairment of properties held for resale	29	245
Taxation	(2,736)	(107)
Net loss attributable to minority interest	-	(11)
Loss on sale of property held for resale	10	-
	(1,137)	455
Changes in working capital		
Trade and other payables	(9)	169
Trade and other receivables	(143)	1,558
Goods and services tax	69	138
	(83)	1,865
Net cash flow from operating activities	(1,220)	2,320

NZ WINDFARMS LIMITED
NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

6. CAPITAL COMMITMENTS

At 31 December 2009 the Group's capital commitments were \$15,200,000 (30 June 2009 - \$23,292,000; 31 December 2008 - \$34,708,000).

7. CONTINGENT ASSETS AND LIABILITIES

7.1 Carbon credits

The Company has entered into an emission reduction project agreement with the Crown in relation to the Te Rere Hau wind farm. The agreement requires completion of minimum milestones and the generation of maximum emission reductions, this then invokes the entitlement to emission reduction units saleable on the open market.

The following table details maximum emission reduction unit entitlements as per the agreement with the Crown.

Figures below are for the year to 31 December:

Year	Tonnes of carbon dioxide tCO ₂ -e
2008	1,296
2009	34,000
2010	113,000
2011	131,000
2012	131,000

An international market for carbon credits is emerging and allows the trading of carbon credits between parties. There is no active market for carbon credits within New Zealand at this time. The current international market price of carbon credits typically ranges from Euro8 to Euro12 per tonne. The Company commenced earning emission reduction units on 1 January 2008 and earned 30,390 units during the calendar year ended 31 December 2009 (31 December 2008: 1,296 units). The emission reduction units will be recognised as an asset at fair value at the time the Crown issues the units and when fair value can be determined by reference to an active market. The 2008 and 2009 units have not yet been issued by the Crown.

7.2 Bank bonds

The Group has provided performance bonds to suppliers of \$4,712,000 (2008: \$4,712,000), which are secured by way of term deposits with ANZ National Bank Limited.

7.3 General Security and Security Sharing Deeds

The Company and subsidiary NZWL-TRH Limited have granted General Security Deeds and entered into a Security Sharing Deed with Vector Limited (refer note 11.1) and the supplier (lessor) of an internal electricity gathering system and electricity line connection (refer notes 8 and 9) whereby the Company and subsidiary have granted to the secured parties security over all of its present and after-acquired property, and all other property in which it has rights, whether or not it owns such property.

NZ WINDFARMS LIMITED
 NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

8. OPERATING LEASES

	31/12/2009	31/12/2008
	\$000	\$000
	(audited)	(unaudited)
Lease payments expensed during the period	479	67
Non cancellable lease commitments:		
Within 1 year	1,004	960
1 to 5 years	4,053	5,835
More than 5 years	14,433	15,326

The operation of the Te Rere Hau wind farm is on land governed by a Wind Rights Agreement. This agreement provides for an easement to be granted to allow the establishment of a wind turbine generating facility. In exchange for easement access, a royalty is payable based on gross revenue from the wind farm. The wind right agreement is for a maximum period of 75 years.

On 8 October 2007, the Group entered into a 20 year agreement to lease an internal electricity gathering system that connects the onsite sub-station to the TrustPower sub-station, which in turn connects to the national grid. The operating lease commenced in September 2008 (also refer to note 9).

The Company leases office premises under an operating lease. The lease runs for a period of one year with an option to renew the lease for a further two years. The lease payment is reviewed every two years to reflect market rentals.

NZ WINDFARMS LIMITED
 NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

9. FINANCE LEASE

In September 2008 a 20 year agreement to lease an internal electricity gathering system commenced, which connects turbines to the onsite sub-station.

In accordance with the agreement, the Company is required to provide the lessor with a bank bond or guarantee. The bond shall be payable to the lessor upon its right to terminate the agreement under certain circumstances. The bank bond has been secured by ring-fencing \$4,637,000 term deposits. (30 June 2009 \$4,637,000; 31 December 2008 \$4,637,000).

	Minimum future lease payments		Present value of minimum future lease payments	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
	\$000	\$000	\$000	\$000
	(audited)	(unaudited)	(audited)	(unaudited)
Non cancellable lease commitments:				
Within 1 year	638	589	110	100
1 to 5 years	2,550	3,188	564	667
More than 5 years	8,713	8,714	4,824	4,823
Minimum lease payments	11,901	12,491	5,498	5,590
Less future finance charges	6,403	6,901	-	-
Present value of minimum lease payments	5,498	5,590	5,498	5,590

Included in the finance statements as:

Finance lease – current	-	-	110	100
Finance lease – non-current	-	-	5,388	5,490

10. PUT OPTION AGREEMENT

The Company holds an interest over the land that the Te Rere Hau wind farm is on by way of an easement which creates rights to occupy land. The agreement provides for the property owner to require the Company to purchase the land (a put option) at a price that reflects the value of the land as a grazing block plus a present value calculation of future royalties.

11. MATERIAL RELATED PARTY TRANSACTIONS

11.1 Vector Limited

Vector Limited is a related party due to Michael Stiassny and Simon Mackenzie being Directors of NZ Windfarms Limited and a Director and the Chief Executive of Vector Limited respectively. Vector Limited holds a cornerstone shareholding of 19.99% in NZ Windfarms Limited.

On 16 December 2009 NZ Windfarms entered into a Bridging Loan Facility Agreement with Vector Limited for up to \$6.5 million, which will ensure that the Company has sufficient funds until the capital raising is completed. The term of the loan facility will not run beyond 30 May 2010, and it is expected that the loan facility will be fully repaid from the proceeds of the capital raising.

The principal amount of the Loan exceeded 10% of NZ Windfarms "average market capitalisation" (as defined in Listing Rule 1.6.1). On 20 November 2009 NZX Limited waived the requirement for NZ Windfarms to comply with Listing Rule 9.2.1 in relation to the Loan, subject to certain conditions all of which have been met.

NZ WINDFARMS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

Key terms of the loan include:

- Security by way of a charge over all the assets of NZ Windfarms Limited and its subsidiary NZWL-TRH Limited (also refer to note 7.3).
- Interest of 15% per annum.
- Default interest of 20% per annum.
- An arrangement fee of 1% of the facility amount (paid during the period), and an ongoing line fee of 2% per annum of the facility amount per annum, payable quarterly in arrears.
- At 31 December the Company had drawn \$1,000,000 against the loan facility.

Vector Limited has entered into an agreement with NZ Windfarms Limited to provide general electricity services. In the six months ended 31 December 2009 \$60,000 fees have been accrued to Vector Limited (30 June 2009 - \$70,000; 31 December 2008 - \$nil).

11.2 Key management

Key management personnel short term employee benefits, including remuneration to Directors, was \$379,000 during the six months to 31 December 2009 (30 June 2009: \$702,000; 31 December 2008: \$348,000).

11.3 Directors' remuneration

Directors' remuneration of \$116,000 was paid and expensed during the six months 31 December 2009 (30 June 2009: \$230,000; 31 December 2008: \$124,000).

Key related party shareholdings are as follows:

Name of related party	Relationship	Number of shares
Derek and Janice Walker	Derek Walker, Director	20,000
Vicki Buck	Director	36,000

12. EVENTS SUBSEQUENT TO 31 DECEMBER 2009

12.1 Resource Consent

On 4 February 2010 the Company received the decision of the Joint Hearing Commissioners in respect to the Resource Consent application for the Te Rere Hau wind farm Eastern Extension. The Hearing Commissioners have granted consents for the 56 additional turbines applied for. At the time of authorising these financial statements one appeal had been lodged with the Environment Court in respect to this decision. The Company believes the appellant's concerns can be addressed, and has initiated discussion with the intention of reaching an agreement to have the appeal withdrawn.

12.2 WindPower Maungatua Limited

In January 2010 an application was made to remove its non-trading subsidiary, WindPower Maungatua Limited, from the Companies Office register. The Registrar of Companies has given public notice of the intention to remove the Company from the register on 28 January 2010 and provided no objections are received within 20 working days from the date of notice the Company will be removed from the register.

13. SEGMENT INFORMATION

The Group operates in the electricity generation segment in New Zealand. The Board makes resource allocation decisions based on expected cash flows and results of the Group's operations as a whole.

NZ WINDFARMS LIMITED
NOTES TO THE GROUP FINANCIAL STATEMENTS (Continued)

14. GOING CONCERN

The condensed consolidated interim financial statements have been prepared using the going concern assumption. The continued operations of the Group are dependent on the ability to fund future activities from operational cash flows and funding.

The Company and its subsidiaries have prepared business plans and budgets which indicate that cash generated as a result of operations is insufficient for the Company to continue operating for a period of at least 12 months from the date these financial statements were approved by the Board of Directors.

The Company is proposing to raise funding to complete the development of the Te Rere Hau wind farm and to repay the short term loan from its cornerstone shareholder, Vector Limited, by way of a shareholder rights issue. On completion of the wind farm the Company's cash flow projections demonstrate sufficient net cash surpluses to fund the ongoing operations of the wind farm.

The Board is close to finalising the timing and method of raising funding and further information of the nature of the rights issue will be released to NZX and shareholders shortly.

For the reasons set out above, the Board believes the going concern assumption is a valid basis on which to prepare the financial statements. The Board reached this conclusion having regard to the circumstances which they consider likely to affect the Company during the period of one year from the date these financial statements are approved, and to circumstances which they believe will occur after that date which could affect the validity of the going concern assumption. While the Board is confident in the Company's ability to continue as a going concern, there is uncertainty with respect to achieving the operational cash flows predicted and the raising of sufficient additional funding prior to utilisation of available cash resources and to complete the Te Rere Hau wind farm project. Accordingly, there is uncertainty as to whether the Company can continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable. If the Company was unable to continue in operational existence and pay debts as and when they become due and payable, adjustments may have to be made to reflect the situation that assets may need to be realised and liabilities extinguished other than in the normal course of business, and at amounts which could differ significantly from the amounts at which they are currently recorded in the consolidated interim balance sheet.

The condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

**AUDIT REPORT
TO THE SHAREHOLDERS OF NZ WINDFARMS LIMITED**

We have audited the condensed consolidated interim financial statements on pages 5 to 16. The condensed consolidated interim financial statements provide information about the past financial performance of NZ Windfarms Limited and group and their financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on page 9.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which present fairly the financial position of NZ Windfarms Limited and group as at 31 December 2009 and the results of operations and cash flows for the six months ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the condensed consolidated interim financial statements presented by the Board of Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the condensed consolidated interim financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the condensed consolidated interim financial statements, and
- whether the accounting policies are appropriate to the company and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the condensed consolidated interim financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the condensed consolidated interim financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in NZ Windfarms Limited or any of its subsidiaries.

Fundamental Uncertainty

In forming our unqualified opinion, we have considered the adequacy of the disclosures in Note 14 of the condensed consolidated interim financial statements concerning the Board of Director's plans with respect to achieving the operational cash flows predicted and the raising of additional funding within the timeframe budgeted and prior to utilisation of available cash resources. The condensed consolidated interim financial statements have been prepared on a going concern basis, the validity of which depends on the successful implementation of such plans. These plans have been confirmed by the Board of Directors as outlined in Note 14. The condensed consolidated interim financial statements do not include any adjustments that would result from a failure to achieve the cash flow predicted both operational and through additional funding within the timeframe set out in the Board of Directors' plans. If the cash flows cannot be achieved within the timeframe set, the company may be unable to continue in operational existence for the foreseeable future and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amount at which they are currently recorded in the consolidated interim balance sheet. In addition, the company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion the condensed consolidated interim financial statements on pages 5 to 16 present fairly the financial position of NZ Windfarms Limited and group as at 31 December 2009 and the results of their operations and cash flows for the six months ended on that date in accordance with *NZ IAS 34: Interim Financial Reporting* and *IAS 34: Interim Financial Reporting*.

Our audit was completed on 26 February 2010 and our unqualified opinion is expressed as at that date.

A stylized, handwritten signature of the word "Deloitte" in a cursive script.

Chartered Accountants
Christchurch, New Zealand

This audit report relates to the condensed consolidated interim financial statements of NZ Windfarms Limited for the six months ended 31 December 2009 included on NZ Windfarms Limited's website. The Board of Directors is responsible for the maintenance and integrity of NZ Windfarms Limited's website. We have not been engaged to report on the integrity of the NZ Windfarms Limited's website. We accept no responsibility for any changes that may have occurred to the condensed consolidated interim financial statements since they were initially presented on the website. The audit report refers only to the condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited condensed consolidated interim financial statements and related audit report dated 26 February 2010 to confirm the information included in the audited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

NZ WINDFARMS LIMITED DIRECTORY

Directors

Derek Walker of Palmerston North (Chairman)
Vicki Buck of Christchurch (Deputy Chair)
Wyatt Creech of Wellington
Simon Mackenzie of Auckland
Juliet McKee of Wellington
Michael Stiassny of Auckland

Executive Staff

Steve Cross, Chief Executive Officer
Garry Forward, Acting Chief Financial Officer

Solicitors

Russell McVeagh
Vero Centre, 48 Shortland Street
Auckland

Registered Office

Level 5, 315 Manchester Street
Christchurch

Auditor

Deloitte
32 Oxford Terrace
Christchurch

Share Registry

Link Market Services Limited
138 Tancred Street
Ashburton

Bankers

ANZ National Bank Limited
Level 2, corner Colombo and Hereford Streets
Christchurch

Insurance Brokers

Marsh Limited
Level 4, 233 Cambridge Terrace
Christchurch